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Private equity has several characteristics that make this asset class different from investment products. For this reason, the risk management tools that are used in other asset classes are not directly applicable to private equity. Although private equity has exposures to many sources of risks that affect other classes, institutional investors need to modify their risk measurement and management techniques when dealing with private equity. Because of its long-term investment horizon, its illiquidity, and its unique investment structure, private equity investments have their own set of specific risks. These risks are different from those in public markets and, therefore, can be more difficult to understand and capture in traditional risk models. In addition, allocation to private equity follows a unique process where investors commit to certain level of allocation, which the general partner can call for at different stages. All of these make allocation to private equity challenging. This issue of *The Journal of Alternative Investments* contains four articles covering various aspects of private equity investment and operations. This issue also covers cryptocurrencies and trend-following strategies.

In “Demystifying Illiquid Assets: *Expected Returns for Private Equity*,” Ilmanen, Chandra, and McQuinn develop a framework to evaluate the risk-return characteristics of private equity, which should help institutional investors in their asset allocation decision. The authors assess private equity’s realized and estimated expected return relative to liquid and lower-cost public equity counterparts. Their estimates display a decreasing trend over time, which does not seem to have slowed the institutional demand for private equity. They conclude that the increased demand for private equity may be explained by institutional investors’ preference for the return-smoothing properties of illiquid assets.

Scharfman analyzes key trends that have emerged among investors performing operational due diligence (ODD) reviews on third-party fund managers in the article titled “Analysis of Three Emerging Trends in Limited Partner Operational Due Diligence.” The first trend analyzed by the article is an increase in the scope of ODD reviews; the second one is an expansion of the depth of ODD reviews. The final trend is a movement toward the integration of ODD and investigative due diligence processes. The author argues that the scope of ODD has broadened from a focus primarily on trade operations and fund accounting to include cash management controls, valuation techniques, and pricing sources, among other areas. In addition, the depth of ODD has increased primarily by

asking more questions, but also through the analysis of operational risks that span multiple risk factors.

The article titled “Alternative Asset Fees, Returns, and Volatility of State Pension Funds: *A Case Study of the New Jersey Pension Fund*,” provides new information about alternative asset fees charged to many institutional investors by tapping a relatively unknown data source: state pension fund annual reports. Hooke, Park, and Yook examine the few state pension fund annual reports that track both fixed fees and carried interest fees of private equity funds and hedge funds and find that average alternative asset fees were 2.48% of the relevant pension fund assets. Because New Jersey provides the most detailed alternative asset data, the authors discuss New Jersey pension funds’ private equity and hedge fund returns, fees, and volatility in detail. They report that both private equity and hedge fund portfolios underperformed their publicly traded benchmarks. To the degree that other state pension funds follow the same investment policies and controls as the state of New Jersey, this study concludes that state pension funds should exercise more care in determining their strategic allocation to alternatives.

The issue of the economic impact of the private equity industry has been a controversial subject in recent years. The article written by Cox and Bailey examines the relationship between private equity investment and local employment growth. Although previous studies have been inconclusive or contradictory, by focusing on county-wide data and the spillover effects, “Private Equity Investment and Local Employment Growth: *A County-Level Analysis*,” makes important contributions to the debate surrounding the economic impact of private equity. The authors estimate the effect of private equity investment volume and a host of control variables that might otherwise explain employment growth. After controlling for these demographic factors, the article reports that private equity investment shows a positive correlation with lagged county-wide employment changes from 2011 to 2014.

In “Cryptocurrency Survival Analysis,” Lansky analyzes more than 2,500 cryptocurrencies that are or were previously traded on cryptocurrency exchanges. The article explores the probability that a crypto-

currency will not survive and will be delisted from exchanges. For the different categories of cryptocurrencies according to their trading duration on exchanges, the author determines the conditional probability of delisting within 1 to 5 years. New cryptocurrencies are the riskiest; with the increasing age of the cryptocurrency, the probability of its delisting decreases.

The second article on cryptocurrencies is titled “Cryptocurrency Value and 51% Attacks: *Evidence from Event Studies*.” Shanaev, Shuraeva, Vasenin, and Kuznetsov employ an event studies approach to assess the influence of 51% attacks on proof-of-work cryptocurrency prices. The article uses an exhaustive sample of 14 individual attacks on 13 cryptocurrencies. The authors’ findings suggest that altcoins with certain characteristics tend to be vulnerable to 51% attacks, which results in a significant drop in their value on the day of the attack. Across multiple event studies techniques, majority attacks on blockchains are consistently shown to reduce the corresponding coin prices by 12 to 15 percent. When the prices of these coins suddenly increase without a clear explanation, it can signal an impending attack. There is evidence of pump-and-dump schemes before the 51% attack. However, the market demonstrates high efficiency after the attacks.

In “Skew and Trend Aversion: *The Impact of Positive Skew and Behavioral Biases on Allocation Decisions*,” Dugan and Greyserman argue that due to behavioral factors, investors tend to under allocate to trend-following strategies. The article argues that despite evidence of the benefits to a portfolio from including trend following strategies, actual allocations are typically 5% or less. The authors investigate known behavioral biases as a potential reason explaining the significant discrepancy between optimal allocations and actual allocations to trend following strategies. Although decision-makers may have other valid reasons to exclude trend following strategies from their portfolios, the article explores the roles played by loss aversion, recency bias, and the ambiguity effect on investors’ demands for trend-following strategies.

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